U.S. House of Representatives
COMMITTEE ON THE BUDGET
Washington, DC 20515

August 1, 2000

Deficits Turn to Surpluses — A Democratic Success

Dear Democratic Colleague:

When President George Bush left office on January 20, 1993, he left behind a $290 billion deficit and projections of $300 billion deficits for years to come. CBO now expects fiscal 2000 to end with a *surplus* of $219 billion. Who deserves the credit for this remarkable turnaround? Congressional Democrats and the Clinton-Gore Administration.

The following paper uses the latest CBO data to make many points. Among them are:

- The 103rd Congress, a Democratic Congress, enacted legislation reducing the deficit $401 billion over 1994-1998. In contrast, the 104th, 105th, and 106th Congresses enacted legislation making matters *worse* by $14 billion over 1995-2000.

- Thus, to the extent legislation turned the deficit into a surplus, CBO data show that Democrats deserve all of the credit. Even Bruce Bartlett, a conservative columnist, could not figure out a way to give the Republicans more than 20% of the credit.

- Democrats enacted *balanced* legislation — half the savings came from spending restraint, half from revenues. And even though revenues were half the solution, compared with 1993, middle class and working families now 1) pay *lower* effective federal tax rates, 2) pay a *smaller* share of federal revenues, and 3) enjoy *higher* real after-tax income. In fact, real after-tax income is noticeably higher for every income group in America.

- Republicans enacted legislation that *increased* spending. They increased spending as much as they cut taxes. Their record is at odds with their rhetoric.

Our success is an important story that deserves to be told. If you have any questions, please feel free to call the Budget Committee staff at x6-7200.

Sincerely,

John M. Spratt, Jr.

John M. Spratt, Jr.
Ranking Democratic Member

House Budget Committee

Democratic Caucus

U.S. Rep. John Spratt ■ Ranking Democratic Member

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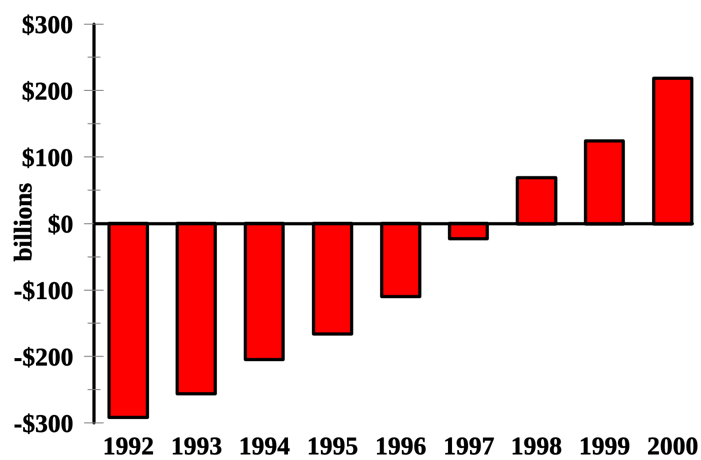
August 1, 2000

The Budget Surplus — a Democratic Success

When President George Bush left office on January 20, 1993, he left behind a federal deficit of $290 billion and a projection of $300 billion deficits for years to come. But because of Democratic budgets and Democratic votes, an era of deficits has been transformed into an era of surpluses: for fiscal 2000, the Congressional Budget Office (CBO) now predicts a surplus of $219 billion. That $219 billion surplus —

- is the largest surplus on record;
- represents a surplus in Social Security *and* a surplus in Medicare *and* a surplus in all other budget accounts combined.
- marks the eighth year in a row of successively lower deficits or higher surpluses, for the first time in U.S. history;
- shrinks the debt as a share of the economy for the seventh year in a row, thereby shrinking interest costs as a share of the budget;
- was achieved by a Democratic budget plan that was balanced and fair to all Americans; and
- is a success for congressional Democrats, President Clinton, and Vice-President Gore.

Deficits turn to Surpluses after 1993 legislation



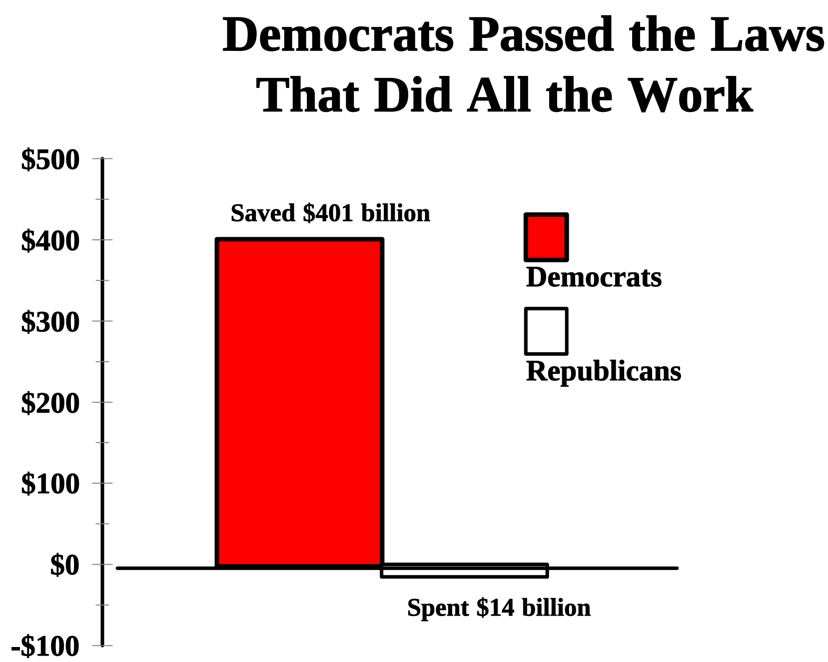
Why is This a Success for Democrats?

Why do Democrats deserve credit for this result? **According to CBO, the Democratic Congress enacted laws reducing the deficit by hundreds of billions of dollars, while Republican Congresses accomplished almost nothing. And what little they did accomplish made the situation worse.**

CBO data show that 1) budget legislation, 2) the booming economy, and 3) other factors such as a slowdown in the growth of medical costs have worked together to turn deficits into surpluses. This report focuses on budget legislation — the work done directly by Congress.

CBO examined the track record of four Congresses: the 103rd Congress, which had a Democratic majority in the House and Senate; and the 104th, 105th, 106th Congresses, which had Republican majorities.

The Summary Graph (to the right) and the Summary Table (below) show that the Democratic 103rd Congress wrote laws saving $401 billion over the five-year period 1994-1998, and a considerable amount in later years as well. In contrast, the Republican 104th, 105th, and 106th Congresses wrote laws that, on balance, made matters $14 billion worse.



Summary Table: Savings From Budget Legislation Enacted Since 1993

CBO estimates in billions of dollars; minus signs represent costs

	1994	1995	1996	1997	1998	1999	2000	Total
Democrats: 103rd Congress	20	46	78	116	141	*	*	**401**
Republicans: 104th — 106th Congresses			17	23	-12	-6	-36	**-14**

** Because the entitlement and revenue legislation enacted by the 103rd Congress was largely permanent, the 1999 and 2000 savings from that legislation likely exceed $150 billion per year. However, CBO's estimates of the legislation only show its effects through 1998.*

Analysis of the CBO Data

In January 1993, as President Clinton took office, CBO projected the deficit would reach $357 billion by 1998. Two years later, when Republicans took over Congress, CBO projected the 1998 deficit would be $222 billion — an improvement of $135 billion for that year alone — and also projected the deficit for the current year, 2000, at $284 billion. Yet 1998 ended with a *surplus* of $69 billion and CBO expects a surplus of $219 billion in 2000.

Why did the situation improve so markedly? Table 1, below, summarizes CBO's answers.

Table 1: How Projected Deficits Turned Into Surpluses
CBO data in billions of dollars: See Attachment A

	1994	1995	1996	1997	1998	1999	2000	Total
January 1993 projection	-291	-284	-287	-319	-357	*	*	
Legislation (Democrats)	20	46	78	116	141	*	*	**401**
Reestimates	68	62	2	-20	-6	*	*	**106**
January 1995 projection	-203	-176	-207	-224	-222	-253	-284	
Legislation (Republicans)			17	23	-12	-6	-36	**-14**
Reestimates		12	84	179	303	384	538	**1,499**
Actual deficit (-) or surplus	-203	-164	-108	-22	69	124	219	

** Not available. Until 1995, CBO's projections and cost estimates covered only five years.*

- In the summer of 1993, the 103rd Congress, a Democratic Congress, overcame unanimous Republican opposition to enact a major deficit reduction bill. According to CBO, legislation by the 103rd Congress reduced the 1998 deficit by $141 billion.

- In contrast, the Republican Congress, which took over in 1995, enacted budgetary legislation that made the picture worse in 1998 and each year thereafter.

- Over the past seven years the economy grew faster than CBO had expected in 1993. This economic growth is partly the result of the 1993 deficit reduction bill, which is widely credited with keeping interest rates low. Most of the economic growth was reflected as higher revenues. Further, the cost of Medicare and Medicaid grew more slowly than expected in 1993 and 1995. CBO calls all these factors "reestimates."

In 1993, Democrats passed legislation that reduced the deficit; beyond that, reestimates have done the work.

Changes in Revenues and Outlays

Conventional wisdom is that Republicans tend to cut taxes while Democrats tend to increase programs. But an examination of the major legislation enacted during the last eight years calls the conventional wisdom into question.

Table 2: The Democratic Plan Was Balanced

Direct effect of legislation by the 103rd Congress on revenues and outlays in 1998

	In Billions	In Percent
Outlay Reductions	$64.0	53%
Revenue Increases	$57.1	47%
Total Reduction in the Deficit	$121.1	100%

Table 2 shows that program reductions accounted for 53percent of the savings enacted by the 103rd Congress — the Democrats. (The percentage would be even higher if $20 billion in interest savings flowing directly from the legislation were also included.) The notion that Democrats reduce deficits primarily by raising taxes is simply wrong, as is the notion that tax increases lead quickly and inevitably to programs increases. See CBO data in Attachment B.

Table 3: Republicans *Increased* Spending

Direct effect of legislation by the 104th — 106th Congresses on revenues and outlays in 1998-2000

	1998		1999		2000	
	Billions	**Percent**	**Billions**	**Percent**	**Billions**	**Percent**
Outlay Increases	$3.4	27%	$1.6	23%	$18.3	52%
Revenue Reductions	$9.2	73%	$5.4	77%	$17.2	48%
Total Increase in the Deficit or Reduction in the Surplus	$12.6	100%	$7.0	100%	$35.5	100%

Table 3 shows that by 2000, Republican legislation increased spending by slightly more than it cut taxes. See CBO data in Attachment C. This is not to suggest that Republicans are indifferent to very large tax cuts. But the reality so far suggests that Republicans voted to increase selected programs at the same time they far more openly *talked* about very large tax cuts, most of which were sufficiently extreme they could not be enacted.

Even Conservatives Credit the Democrats

The foregoing CBO data show that Democrats deserve credit for 100 percent of the improvement in the budget picture attributable to legislation. The data also show that the Democrats' budget bill was equally balanced between spending restraint and revenue increases.

These conclusions frustrate Republicans, who would like to claim *something* for their six years in office. In 1998, Bruce Bartlett, a conservative columnist, attempted to reflect some credit on Republicans by contrasting the composition of the budget as a share of the economy in 1992, before the Clinton-Gore Administration took office, with its composition in 1998. Yet even he could only attribute 20 percent of the credit to Republicans. He concluded, "On balance, one would have to say the data suggest more of a Clinton influence, as shown by the fact that higher taxes and lower defense spending account for 80 percent of the deficit reduction."[1]

Updating Bartlett's data reinforces the conclusion. As Table 4 shows, from 1992 through 2000, changes in the composition and size of the budget reduced the deficit by 6.0 percent of GDP, excluding interest.[2] Bartlett's approach credits Democrats with deficit reduction of 4.9 percent of GDP through higher revenues and lower defense spending, and Republicans with 1.2 percent of GDP through lower domestic spending — slightly less than one-fifth of the total deficit reduction.

Table 4: Changes in the Composition of the Federal Budget, 1992-2000
The budget as a share of the economy (GDP), using CBO estimates for 2000

	1992	2000	Deficit Reduction	Share of Deficit Reduction
Revenues	17.5%	20.6%	3.1% of GDP	51%
Defense	4.8%	3.0%	1.8% of GDP	30%
Nondefense (except interest)	14.2%	13.0%	1.2% of GDP	19%
Total (except interest)			6.0% of GDP	100%

While Bartlett's approach is overly simplistic, even he gives Republicans less than one-fifth of the credit. And Bartlett's approach, while entirely different from CBO's, also shows that the movement from deficits in 1992 to surpluses in 2000 is split equally between higher revenues and lower spending.

The Booming Economy and the Boom in Revenues

Some believe the unexpected boom in revenues (a major component of the reestimates shown in Table 1 and Attachments B and C), when combined with revenue increases enacted in 1993, mean that taxes are now at an unusually burdensome level. CBO data suggest otherwise.

- The middle class has benefitted from *reductions* in effective tax rates and in the share of revenues paid, not increases. Rather, the tax rates and shares paid by the well off — and especially the very wealthiest — have increased as their incomes have grown.

- Congress deliberately cut the effective tax rate on those less well off, despite the existence

[1] *"GOP also due credit on balanced budget,"* Washington Times, 11-30-98.

[2] Interest is excluded because it is largely a consequence of deficit reduction occurring through changes in revenues and program spending, not a source of deficit reduction by itself. Including the 0.9 percentage point reduction in interest, the total budget deficit decreased by 6.9 percent of GDP from 1992 to 2000.

of deficits. This reduction resulted primarily from the increase in the Earned Income Tax Credit enacted in 1993 and the new children's tax credit enacted in 1997.

- The real *after-tax* income of all income classes has increased over the decade. Even among the very wealthy, for whom effective tax rates were increased the most, after-tax income grew noticeably faster than inflation.

Table 5: Changes in Taxes, Tax Rates, and After-Tax Income, 1993-1999

CBO data, July 1999[3]

Persons, sorted by family income	**Share of Federal Revenues Collected**		**% of Income Paid in Taxes (effective tax rates)**		**Change in Real *After-Tax* Income**
	1993	**1999**	**1993**	**1999**	**% change, 93-99**
Poorest quintile (fifth)	1%	1%	7.8%	4.6%	+ 13%
Second quintile	5%	5%	14.3%	13.7%	+ 10%
Middle quintile	12%	11%	19.1%	18.9%	+ 19%
Fourth quintile	20%	19%	22.0%	22.2%	+ 8%
Wealthiest quintile	61%	65%	27.6%	29.1%	+ 14%
(Wealthiest 5%)	34%	37%	30.2%	31.8%	+ 19%
(Wealthiest 1%)	18%	21%	32.5%	34.4%	+ 19%

In short, revenue increase have been concentrated on those who could most easily afford them, working people are paying taxes at lower rates and in smaller shares than before the Democratic budget plan was enacted, and Americans at every income level are better off than they were before, even after accounting for revenue increases.

Republican Gloom and Doom

On August 5, 1993, when the conference agreement on the Democratic budget bill was voted on, the debate was full of dire warnings. For example, on the House floor, Republicans claimed that our plan was a "disastrous scheme" that would "abort the economic recovery," "sicken the economy," "lead to economic disaster," "kill the goose that lays the golden egg," "destroy jobs, ruin families, and destroy economic opportunity," produce "deficits running $350 billion a year,"

[3] Table 5 uses data prepared by CBO and released in two memoranda, *Preliminary Estimates of Effective Tax Rates*, July 15, 1999, and *Average Pre- and Post-Tax Adjusted Family Incomes and AFI Cutoffs*, July 27, 1999. The data show the effect of all federal taxes — that is, individual and corporate income taxes, payroll taxes, excise taxes, and estate and gift taxes. Taxes ostensibly paid by corporations are attributed to individuals. CBO prepares such data from time to time, not annually. The data shown in CBO's memoranda cover 1977, 1979, 1981, 1983, 1985, 1987, 1989, 1991, 1993, 1995, and 1999. The 1999 figures are projections.

and generally cause "the country to go to hell in a hand basket."[4]

The record of very low inflation, extremely low national unemployment, steady economic growth, increases in after-tax income, and rapidly disappearing deficits has proved those warnings wrong.

Democrats, in contrast, claimed that our budget bill would reduce real interest rates and thereby help the economy, and would cut deficits in half. Democratic claims can be faulted only for being too modest.

The Role of the 1990 Budget Summit Agreement

Looking back even further, it is clear that without the 1990 Budget Summit Agreement, the task of balancing the budget would have been much more difficult. CBO cannot tell us precisely how much the 1990 Budget Summit Agreement assisted in producing current surpluses because CBO did not produce 10-year budget estimates in 1990. But the 1990 Budget Summit Agreement was about the same size as the 1993 Democratic plan, and (like the 1993 plan) the deficit reduction it produced became greater with each passing year. Therefore, it is reasonable to conclude that, without the 1990 Budget Summit Agreement, CBO's 1993 projection for 1998 would have been $150-$200 billion worse than it was — a deficit well over $500 billion instead of $357 billion.

Thus, the 1990 Budget Summit Agreement set the stage for the Democratic budget plan of 1993. Because the recession during the Bush-Quayle administration temporarily pushed spending up and revenues down, the long-term good accomplished in 1990 has been obscured, but it was real.

Credit for the 1990 Budget Summit Agreement also belongs to Congressional Democrats, who passed it, and to President Bush (although he ultimately decided to repudiate it). Only 47 House Republicans voted for the 1990 budget bill; Speaker Hastert, former Speaker Gingrich, Majority Leader Armey, Majority Whip DeLay, Senator Lott, and virtually all of the current Republican Leadership voted "no."

There is no doubt that the 1990 and 1993 votes were difficult. Some of our Democratic colleagues lost elections for supporting these bills, but the nation was a clear winner.

[4] Representatives Charles Canady, Doug Bereuter, Jim Bunning, Philip Crane, Bill Emerson, Gary Franks, Dan Burton, and Fred Upton, respectively.

Changes in the Total Surplus or Deficit from CBO's January 1993 Projections
(By Fiscal Year, in Billions of Dollars)

	1994	1995	1996	1997	1998	1999	2000
January 1993 Baseline Total Deficit	-291.5	-283.9	-286.6	-319.2	-357.5		
Legislation by the 103rd Congress							
OBRA 93	31.7	52.0	75.8	104.5	122.1		
Debt Service	-2.8	-2.1	4.3	12.4	20.0		
All other Legislation	-8.5	-3.6	-2.6	-1.4	-1.0		
Subtotal	20.3	46.3	77.5	115.5	141.1		
Economic and Technical Changes	67.8	61.9	1.7	-19.9	-6.0		
Total Changes	88.1	108.3	79.2	95.6	135.2		
January 1995 Baseline Total Deficit a/	-203.4	-175.6	-207.4	-223.7	-222.3	-253.2	-283.8
Legislation by the 104th-106th Congress							
Welfare Reform		0	0	3.0	8.4	9.5	10.3
BBA/TRA 1997		0	0	0.1	-20.5	3.9	20.8
Supplemental for FY 2000		0	0	0	0	0	-13.8
Debt Service		*	0.2	1.0	1.0	0.8	-0.3
All other Legislation		-0.2	16.3	19.2	-0.6	-20.3	-52.8
Subtotal		-0.2	16.4	23.2	-11.6	-6.2	-35.8
Economic and Technical Changes		11.8	83.5	178.5	303.1	383.8	538.2
Total Changes		11.6	99.9	201.7	291.5	377.6	502.3
Actual Total Surplus or Deficit (-) b/	-203.4	-164.0	-107.5	-22.0	69.2	124.4	218.5

SOURCE: Congressional Budget Office

NOTES: Numbers in the table may not add to totals because of rounding. * = between -$50 million and $50 million.

OBRA 93 = Omnibus Budget Reconciliation Act of 1993; BBA 97 = Balanced Budget Act of 1997;
TRA 97 = Taxpayer Relief Act of 1997;
Welfare Reform = Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

a. Actual deficit shown for 1994.
b. The surplus shown for 2000 is CBO's July 2000 estimate minus the effect of the supplemental appropriation (H.R. 4425), which was passed after CBO completed its baseline.

Changes in CBO's Estimate of the Total Budget Deficit/Surplus for 1998 Since January 1993 a/
(By Fiscal Year, in Billions Of Dollars)

	1998
January 1993 Deficit Projection	-357.5
Legislative Changes	
Revenues	
OBRA 93	58.5
BBA/TRA 97 b/	-9.1
All other - 103rd Congress	-1.4
All other - 104th Congress	-0.8
All other - 105th Congress	0.7
Subtotal, Revenues	47.9
Outlays c/	
OBRA 93	63.5
Welfare Reform	8.4
Discretionary Cap Increase, BBA 97	-10.8
Other BBA 97	-0.5
All other - 103rd Congress	0.5
All other - 104th Congress	0.0
All other - 105th Congress	-0.5
Debt Service	21.1
Subtotal, Outlays	81.7
Total, Legislative Changes	129.6
Economic and Technical Changes	
Revenues b/	192.3
Outlays c/	
Medicare	18.8
Medicaid	42.9
Net interest	27.3
All other outlays	15.8
Subtotal, Outlays	104.8
Total, Economic and Technical Changes	297.1
Total Changes	426.7
Actual 1998 Total Budget Surplus	69.2

SOURCE: Congressional Budget Office.

NOTES: Numbers in the table may not add to totals because of rounding.

OBRA 93 = Omnibus Budget Reconciliation Act of 1993; BBA 97 = Balanced Budget Act of 1997;
TRA 97 = Taxpayer Relief Act of 1997;
Welfare Reform = Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

a/ The figures rely solely on CBO's published reports, and are simply the sum of the changes that CBO has published since January 1993. The initial classification of changes as legislative, economic, or technical is not revisited, even in light of new information such as revised NIPA data.

b/ The Balanced Budget and Emergency Deficit Control Act requires that baseline projections of revenues assume that expiring excise taxes dedicated to trust funds will continue. Once such taxes have actually expired, however, the projections must reflect the expiration. Thus, CBO's January 1993 baseline projections assumed that Airport and Airways excise taxes would continue beyond their scheduled December 31, 1996 expiration. But when the taxes were not extended by the end of 1996, the January 1997 baseline reflected the expiration and showed the reduction in revenues as a technical change in the baseline. The subsequent reinstatement of the excise taxes in March 1997 was shown as a legislative increase in revenues in CBO's September 1997 baseline.

c/ Increases in outlays are shown as negative because they decrease the surplus.

Changes in the Total Surplus or Deficit from CBO's January 1995 Projections
(By Fiscal Year, in Billions of Dollars)

	1998	1999	2000
January 1995 Baseline Total Deficit	-222.3	-253.2	-283.8
Legislative Changes			
Revenues			
BBA/TRA 1997	-9.1	-6.9	-23.0
All Other-104th Congress	-0.8	0.1	0.3
All Other-105th Congress	0.7	1.2	0.4
All Other-106th Congress	0	0.2	5.1
Subtotal	-9.2	-5.4	-17.2
Outlays			
Welfare Reform	8.4	9.5	10.3
BBA/TRA 1997	-11.3	10.8	43.8
All Other-104th Congress	*	1.5	1.5
All Other-105th Congress	-0.5	-19.6	-11.1
All Other-106th Congress	0	-3.7	-62.8
Debt Service	1.0	0.8	-0.3
Subtotal	-2.4	-0.8	-18.6
Total, Legislative Changes	-11.6	-6.2	-35.8
Economic and Technical Changes			
Revenues	184.6	208.1	327.6
Outlays			
Medicare	17.1	39.1	45.1
Medicaid	20.2	25.6	36.4
Net Interest a/	10.5	29.2	42.6
All Other	70.7	81.8	86.5
Subtotal	118.5	175.7	210.6
Total, Economic and Technical Changes	303.1	383.8	538.2
Total Changes	291.5	377.6	502.3
Actual Total Surplus or Deficit (-) b/	69.2	124.4	218.5

SOURCE: Congressional Budget Office

NOTES: Numbers in the table may not add to totals because of rounding; * = between -$50 million and $50 million.

BBA 97 = Balanced Budget Act of 1997; TRA 97 = Taxpayer Relief Act of 1997
Welfare Reform = Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

a. Includes Debt Service
b. Fiscal year 2000 surplus is CBO's July 2000 estimate minus the effect of the supplemental appropriation for 2000 (H.R. 4425).